

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED
AUG 12 4 53 PM '97
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TREWORY TO INTERROGATORY OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T22-1)

The United States Postal Service hereby provides the response of witness Treworgy to the following interrogatory of the Office of the Consumer Advocate: OCA/USPS-T22-1, filed on July 29, 1997.

The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

K N Hollies
Kenneth N. Hollies

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3083; Fax -5402
August 12, 1997

**U.S. POSTAL SERVICE WITNESS DAVID E. TREWORGY
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE**

Page 1 of 11

OCA/USPS-T22-1. Please refer to your testimony in Docket No. MC97-2 (USPS-T-9) and your testimony in Docket No. R97-1 (USPS-T-22).

- a. Please list all substantive differences between your testimony in Docket No. MC97-2 (USPS-T-9) and your testimony in Docket No. R97-1 (USPS-T-22). Give full citations to page and line.
- b. Please explain the reasons for the changes, giving particular attention to text and other material in your testimony in Docket No. MC97-2 (USPS-T-9) that no longer appear in your testimony in Docket No. R97-1 (USPS-T-22).

RESPONSE.

a-b. The differences between my testimony in Docket No. MC97-2 (USPS-T-9) and Docket No. R97-1 (USPS-T-22) are caused by three environmental changes:

1. The Postal Service has now determined to purchase over 300,000 hand-held scanners. Under this new operational environment, information for each DC mail item barcode will be captured at the delivery point with a hand-held scanner. By contrast, the DC proposal in Docket No. MC97-2 involved peel-off DC labels scanned at the end of the day in the office by the accountable clerk using the existing Express Mail (CTT) scanners. This operational change alters both the activities performed for delivery confirmation and the people performing them; each of these in turn impacts the costs for delivery confirmation.
2. Docket No. R97-1 proposes offering delivery confirmation for Priority Mail in addition to Standard B; Docket No. MC97-2 proposed the service only for the latter of these.
3. The base year changed from 1995 (Docket No. MC97-2) to 1996 (Docket No. R97-1). The test year shifted from 1997 (Docket No. MC97-2) to 1998 (Docket No. R97-1). These changes required that many inputs be updated.

The differences between my testimonies caused by these environmental changes are detailed below in a section by section analysis (page references are to the current testimony, USPS-T-22).

U.S. POSTAL SERVICE WITNESS DAVID E TREWORGY
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

Page 2 of 11

I. PURPOSE AND SCOPE OF TESTIMONY (page 1, line 1 to page 1, line 19)

The purpose and scope of my testimony has expanded to provide two additional unit costs estimates, one for "Priority Mail base delivery confirmation" and one for " Priority Mail retail surcharge delivery confirmation" (page 1, lines 2-9).

I also provide cost estimates of certain capital depreciation and program costs related to scanning equipment (page 1, lines 10-14). This was not necessary in my previous testimony because, under that operational environment, the Postal Service planned to utilize existing CTT scanners for delivery confirmation.

II. NEW SCANNERS TO BE DEPLOYED BY THE POSTAL SERVICE (page 1, line 20 to page 4, line 3)

This section is entirely new; its purpose is to describe the new hand-held scanners the Postal Service plans to purchase

III. OVERALL APPROACH TO DEVELOPMENT OF COST ESTIMATES (page 4, line 4 to page 4, line 18)

This section did not change substantively between my testimony in Docket No. MC97-2 and my current testimony.

U.S. POSTAL SERVICE WITNESS DAVID E. TREWORY
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

Page 3 of 11

IV. DELIVERY CONFIRMATION OPERATIONS (page 5, line 1 to page 10, line 20)

A. Introduction

This section did not change substantively between my testimony in Docket No. MC97-2 and my current testimony.

B. Acceptance Operations

This section did not change substantively between my testimony in Docket No. MC97-2 and my current testimony.

C. Delivery Operations

The substantive changes to this section reflect the different operational processes for barcode scanning with the new hand-held scanners. In table 2 of my Docket No. MC97-2 testimony, the following actions:

- Step 2: Carrier peels off barcode label from parcel and affixes it to Form 3849.
- Step 5: Carrier turns in Form 3849 to accountable clerk along with other items such as collection box keys; funds collected for delivery of COD and postage due, and Certified, Registered, and Express Mail delivery receipts.
- Step 6: Scanning clerk scans DC barcode on Form 3849 in same manner as barcodes on Express Mail receipts to record final delivery.

are replaced in Docket No. R97-1 with:

- Step 2: Carrier scans DC barcode, keys status as "delivered," and verifies ZIP Code.

U.S. POSTAL SERVICE WITNESS DAVID E. TREWORGY
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

Page 4 of 11

In table 3 of my Docket No. MC97-2 testimony, the following actions:

- Step 4: Scanning clerk scans DC barcode on undelivered parcel to record attempted delivery.
- Step 8: Window clerk peels off barcode label from parcel and affixes it to Form 02.
- Step 9: After windows close for day, scanning clerk scans DC barcode on Form 02 in same manner as barcodes on Express Mail receipts to record final delivery.

are replaced in Docket No. R97-1 with:

- Step 3: Carrier scans DC barcode on attempted delivery item, keys status as "attempted," and verifies ZIP Code.
- Step 8: Window clerk scans DC barcode, keys "delivered" status, and verifies ZIP Code.

Tables 4 and 5, which discuss comparable steps for the box clerk, exhibit similar changes that reflect the shift from peeling off barcodes from DC mail items to scanning the barcodes directly on the items with hand-held scanners.

D. Provision of Delivery Confirmation Information to Mailers

This section did not change substantively between my testimony in Docket No. MC97-2 and my current testimony.

V. DELIVERY CONFIRMATION VOLUME VARIABLE COSTS BY COST CATEGORY
(page 11, line 1 to page 17, line 9)

A. Introduction

This section did not change substantively between my testimony in Docket No. MC97-2 and my current testimony.

U.S. POSTAL SERVICE WITNESS DAVID E. TREWORGY
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

Page 5 of 11

B. Postal Service Labor and Associated Non-Labor Costs

The only substantive change to this section is in subsection (ii)(b). Unlike in Docket No. MC97-2, the number of transactions for activities in Docket No. R97-1 is proportional with volume, so there is no need for a coverage factor. Accordingly, "transactions" in all cases refers to the total volume handled by a specific activity.

C. Non-Labor Costs

The only substantive change to this section is in subsection (iii). In the previous testimony, both blank and preprinted labels and Forms 3849 and 02 were to have been used. In Docket No. R97-1, only one label and no forms are necessary.

VI. SUMMARY OF DELIVERY CONFIRMATION VOLUME VARIABLE COSTS (page 17, line 10 to page 17, line 14)

This section did not change substantively between my testimony in Docket No. MC97-2 and my current testimony.

VII. DISTRIBUTION KEY FOR SCANNER INFRASTRUCTURE CAPITAL AND PROGRAM COSTS (page 18, line 1 to page 18, line 16)

This section was not included in Docket No. MC97-2 because existing CTT scanners were used to scan each mail piece; therefore no new equipment was required. In Docket

U.S. POSTAL SERVICE WITNESS DAVID E. TREWORGY
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

Page 6 of 11

No. R97-1, over 300,000 scanners and related equipment are planned to be acquired by the Postal Service; this section of the testimony provides a summary of those costs.

APPENDIX A: SPECIAL STUDIES

In Docket No. MC97-2, eight activities were measured by time and motion studies, while in Docket No. R97-2 only three of those eight activities are applicable. The following four activities are no longer applicable because of the changes in scanning procedures:

- Carrier peels off label from parcel and affixes it to Form 3849
- Box section clerk peels off label from parcel and affixes it to Form 02
- Window clerk peels off label from parcel and affixes it to Form 02
- Scanning clerk scans one barcode on Form 3849 or Form 02

The following fifth activity is no longer applicable because full initialization time is used as a proxy for initializing the hand-held scanner rather than the DC-specific initialization time:

- Scanning clerk initializes scanner (DC initialization time only)

DELETED SECTION: VOLUME SENSITIVITY OF DELIVERY CONFIRMATION UNIT
ATTRIBUTABLE COSTS (page 22, line 10 to page 23, line 9)

This section does not appear in Docket No. R97-1 because unit costs associated with delivery confirmation are not sensitive to volume changes. In Docket No. MC97-2, initialization activities were not proportional to volume because only one initialization occurred per group of forms/parcels and therefore unit costs decreased as volume

U.S. POSTAL SERVICE WITNESS DAVID E. TREWORGY
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

Page 7 of 11

increased. In Docket No. R97-1, the scanner must be initialized before each piece is scanned and therefore unit costs remain constant even as volume increases.

APPENDIX A: SPECIAL DATA COLLECTION STUDIES

MC97-2 (USPS-T-9) Spreadsheets		Crosswalk to R97-1 (USPS-T-22) Spreadsheets	Reason for Change
Data Sheet A-1	Carrier Peels Off Label From Parcel and Affixes It to Form 3949	Does not appear in R97-1	DC label remains on parcel and scanned by carrier at delivery point
Data Sheet A-2	Box Section Clerk Peels Off Label From Parcel and Affixes It to Form 02	Does not appear in R97-1	DC label remains on parcel and scanned by box section clerk at delivery point
Data Sheet A-3	Window Clerk Peels Off Label From Parcel and Affixes It to Form 02	Does not appear in R97-1	DC label remains on parcel and scanned by window clerk
Data Sheet A-4	Scanning Clerk Initializes Scanner	Appears in Data Sheet A-1; "DC share of initialization" column deleted	"Full initialization" used as proxy for scanner initialization time; "DC share of initialization" (MC97-2) only necessary when Express Mail and DC items scanned concurrently
Data Sheet A-5	Scanning Clerk Scans One DC Parcel	Appears in Data Sheet A-2	No substantive change
Data Sheet A-6	Scanning Clerk Scans One Barcode on Form 3849 or Form 02	Does not appear in R97-1	DC label not removed from mail item, so Forms 3849 and 02 not utilized
Data Sheet A-7	Window Clerk Affixes DC Label to Parcel and Scans Barcode	Appears in Data Sheet A-3	No substantive change
Data Sheet A-8	Proportion of Standard B Items Undeliverable by Box Section Clerk	Appears in Data Sheet A-4	No substantive change

U.S. POSTAL SERVICE WITNESS DAVID E. TREWORGY
 RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

Page 8 of 11

APPENDIX B: SUPPORTING SPREADSHEETS

MC97-2 (USPS-T-9) Spreadsheets		Additions/Deletions/ Changes in R97-1 (USPS-T-22)	Reason for Change
Input Sheet B-1	Activity Transaction Times	1. Peel/stick activities and separate scanning clerk not included 2. Scanning time (11.82) equals initialization time (9.36) + scan time (2.46) from Data Sheets A-1 and A-2 3. Box section clerk overhead time factor based on MODS cost pools 4. Updated overhead time factors for city carrier and window clerk	1. City and rural carriers, box section clerks, and window clerks scan all pieces at delivery point 2. An initialization and a scan occur when each DC mail item scanned 3. New mail processing cost methodology based on MODS cost pools 4. Base year changed from 1995 (MC97-2) to 1996 (R97-1)
Input Sheet B-2	Wage Rates and Piggyback Ratios by Craft	1. Accountable clerk information not included 2. Updated wage rates and piggyback ratios	1. Carriers, box section clerks, and window clerks scan all mail pieces at delivery point 2. Test year changed from 1997 (MC97-2) to 1998 (R97-1)

U.S. POSTAL SERVICE WITNESS DAVID E. TREWORY
 RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

Page 9 of 11

Input Sheet B-3	Operational Information	1. Updated number of delivery days 2. Postal facilities with scanner not included 3. Delivery method information for Priority Mail used instead of Standard B (MC97-2)	1. Test year changed from 1997 (MC97-2) to 1998 (R97-1) 2. All delivery points will be equipped with scanners 3. MC97-2 proposed delivery confirmation for Standard B only; R97-1 proposes DC for Priority Mail and Standard B Priority Mail accounts for most DC volume and therefore used as proxy for delivery method.
Input Sheet B-4	Volumes	Priority Mail DC volume (electronic and manual) included	R97-1 proposes DC for Priority Mail and Standard B
Input Sheet B-5	Postmaster Costs	1. Updated postmasters cost per dollar of revenue 2. Priority Mail base and retail surcharge columns included	1. Base year changed from 1995 (MC97-2) to 1996 (R97-1) 2. R97-1 proposes DC for Priority Mail and Standard B
Input Sheet B-6	Corporate Call Management Costs	1. Corporate call management projected costs deflated to 1998 dollars 2. Proportion of DC manual service placing call to call center updated	1. Test year changed from 1997 (MC97-2) to 1998 (R97-1) 2. Base year changed from 1995 (MC97-2) to 1996 (R97-1)
Input Sheet B-7	Information Systems Costs	1. Scans per DC mail item updated 2. Priority Mail base and retail surcharge columns included	1. Total volumes and attempted delivery volumes changed due to the addition of Priority Mail and therefore scans per parcel affected 2. R97-1 proposes DC for Priority Mail and Standard B

U.S. POSTAL SERVICE WITNESS DAVID E. TREWORGY
 RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

Page 10 of 11

Input Sheet B-8	Supplies Costs	Only one type of DC label proposed. No cost for Forms 3849 and 02.	In MC97-2, peel-off blank and preprinted labels provided to electronic and manual customers. In addition, all labels placed on Form 3849 or 02. In R97-1, labels only provided to manual customers and no Forms 3849 and 02 required because peel-off labels not used
Worksheet B-1	Delivery Activities Transaction Times	Updated activities and transaction times (see detail for input sheet B-1)	See explanations for input sheet B-1
Worksheet B-2	Volumes by Delivery Method	Updated volumes by delivery method (see detail for input sheets B-3 and B-4)	See explanations for input sheets B-3 and B-4
Worksheet B-3	Delivery Activities Transaction Volumes	Based on number of transactions, which is equal to DC volume for each activity	Number of transactions for some activities in MC97-2 did not vary proportionally with volume and therefore a coverage factor was applied to determine number of estimated transactions. Number of transactions for activities in R97-1 vary proportionally with volume and therefore no coverage factor required.
Worksheet B-4	Delivery Activities Unit Cost	Same methodology as MC97-2	No substantive change
Worksheet B-5	Manual Acceptance Transaction Time	Updated transaction time (see detail for input sheet B-1)	See explanations for input sheet B-1
Worksheet B-6	Manual Acceptance Transaction Volume	Same methodology as MC97-2	No substantive change
Worksheet B-7	Manual Acceptance Unit Cost	Same methodology as MC97-2	No substantive change
Worksheet B-8	Unit Attributable Costs Summary	Priority Mail base and retail surcharge columns included	R97-1 proposes DC for Priority Mail and Standard B
Worksheet B-9	Volume Sensitivity of Unit Attributable Costs	Does not appear in R97-1	Unit costs do not vary with volume

U.S. POSTAL SERVICE WITNESS DAVID E. TREWORY
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

Page 11 of 11

APPENDIX C: DISTRIBUTION KEY FOR SCANNER RELATED AND PROGRAM
COSTS

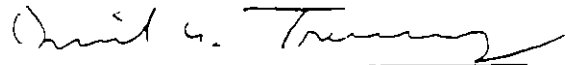
This section is entirely new. In Docket No. MC97-2, no capital expenditures were necessary for the implementation of delivery confirmation because existing infrastructure (CTT scanners) was to have been used. In Docket No. R97-1, over 300,000 hand-held scanners and related equipment are planned for purchase; therefore these costs must be estimated.

DELETED SECTION: APPENDIX C: DELIVERY CONFIRMATION LABELS AND
FORMS

In Docket No. MC97-2, reproductions of three DC labels (manual DC label, electronic preprinted DC label, and blank DC label) and two forms (3849 and 02) were depicted. In Docket No. R97-1, only one label is used and no forms are used. The reason for these changes is that each DC mail item is scanned at its delivery point by a hand-held scanner, not by a CTT scanner in the office as in Docket No. MC97-2.

DECLARATION

I, David E. Treworgy, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



DAVID E. TREWORGY

Dated: 8-12-97

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



Kenneth N. Hollies

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
August 12, 1997